

SUMMARY OF FOREST LAND AND TIMBER TAXES IN WASHINGTON STATE

RCW 84.33 and RCW 84.28

Washington State Department of Revenue



Serving the People
of Washington

June 1999

FOREST TAXES - WHO PAYS WHAT?

(A Quick Glance at the Law)

TAXES ON TIMBER

A. Private Timber

- Exempt from property tax
- Subject to excise tax on stumpage value at time of harvest
- Tax paid quarterly

B. Public Timber (State, Federal and Other)

- Subject to excise tax on contract purchase price
- Tax paid quarterly by purchaser
- State and other timber sales subject to personal property tax

TAXES ON PRIVATE FOREST LAND

- Subject to annual property tax
- Assessed value based on value of bare land for growing and harvesting timber
- Twenty acres or more to be eligible
- Must be used primarily for growing and harvesting timber

HISTORICAL BACKGROUND

In 1971, the Washington State Legislature enacted a new system for taxing private forest lands and timber. Up until that time, timberlands were subject to the property tax like most other kinds of real property. However, experience had

shown that the property tax was difficult and expensive to administer for forest lands. Moreover, since most forest property only produces harvest income after a fifty or sixty year growth period, landowners often found it difficult to pay property taxes every year on their timberlands—especially if the assessed values were not based on the use of land for timber growing.

Recognizing the shortcomings of the property tax as it applied to timber, the 1971 Legislature replaced it with an excise tax on the value of timber at the time it is harvested from the land. The land itself, however, remains under the property tax, but assessed values now reflect only the value of the bare land for growing and harvesting timber.

The purpose of the special forest tax law is to provide uniform, predictable and fair taxes for forest landowners. The 1971 Forest Tax law is supposed to ensure that taxes won't destroy the economic incentives for growing timber on private timberlands, but it also provides that forest lands will continue to pay their fair share of state and local taxes.

The 1931 Reforestation Act was enacted as an optional tax system for people who owned cut-over or burned-over timberlands and who needed some tax relief in order to reforest their timberlands. The 1984 Legislature repealed the 1931 law and merged those lands into the newer tax system. On January 1, 1985, all such lands were "reclassified" under the 1971 law and were re-assessed according to the values then in effect for other classified and designated forest lands. In addition, the tax rate on reclassified timber began to phase down one percent per year so that by 1994 the tax rate would be the same for all other timber. The 1994 Legislature repealed the Reclassified Timberlands law effective January 1, 1994. Now, all privately owned timberland is treated the same.

HOW THE FOREST TAX LAW WORKS

Washington's forest tax law is really two complimentary tax systems: (1) a "current use" property tax on the land, and (2) an excise or "yield" tax on timber.

Property Tax on Forest Lands

Classification. The 1971 Forest Tax Law required county assessors to identify all lands that were chiefly devoted to growing and harvesting timber and to "classify" all parcels of 20 acres or more as forest land.

All lands classified by the assessor as forest land are to be assessed for tax purposes according to the value of land for growing and harvesting timber. In addition, the assessed value must represent only the value of bare land, excluding all timber value or other improvements.

Valuation. The forest land values are determined by the state Department of Revenue, and they vary depending on the productivity of the soil and other factors. In the 1995 assessment year, for example, forest land assessed values ranged from a high of \$201 per acre for the most productive land to \$17 per acre for the least productive land. The values for each productivity class are updated annually by the Department of Revenue using a formula which ties changes in the land values to the long term trend in timber values.

Designation. People who own forest land that has not been previously classified by the assessor may apply for "designation" of their property as forest land. Application forms may be obtained in the county assessor's office. To qualify for designation, the applicant must own at least 20 acres and the land must be used primarily for timber growing. The assessor may require the applicant to include a forest management plan with the application. The applicant must also be in compliance with the state's forest practice laws and regulations. If the application is approved, the land becomes subject to the same forest land assessments as classified forest land.

Removal and Compensating Tax. Once land has been classified or designated as forest land, it is assessed every year as forest land until the assessor removes the classification or the landowner requests removal. The assessor may remove the property from forest land classification or designation if he/she feels that the property is no longer being used for forest management. In addition, classification will be revoked if the property is sold to someone who does not want to use it for forestry. In all cases, the

property owner has the right to appeal a removal to the county Board of Equalization.

If the classification is removed either by the assessor or by request of the landowner, the owner may be required to pay a compensating tax to the county. The compensating tax is the difference in taxes due on the property under forest land assessment compared with the amount that would be due under "highest and best use" assessment, multiplied by the number of years the property has been classified as forest land (maximum of ten years).

The biggest advantage of the forest land classification/designation program is it protects the owner from high property tax assessments based on some land use other than forestry. Forest land taxes are based on actual use of the land for growing timber; and while the tree crop is growing to maturity, the trees are exempt from property taxation. Over 6.8 million acres of private timberland have been classified or designated under the 1971 law.

The Timber Excise Tax

The other half of the forest tax program is the timber excise tax which is administered by the Washington State Department of Revenue. The 1971 Forest Tax Law states that timber is no longer subject to property taxation. The exemption applies to all timber—even if it is growing on land that is not classified or designated as forest land. However, in place of the property tax, timber owners must pay a five percent excise tax (yield tax) on the value of their timber when they cut it. In 1982, the Legislature extended the tax to timber cut on state and federal land, as well as private land.

Who pays the tax? The timber excise tax must be paid by the timber harvester. The law defines a timber harvester as anyone who fells, cuts or takes timber for sale or for commercial or industrial use. Timber is considered harvested at the time the volume by species is first determined—that is, the time of scaling. Therefore, the person who owns the timber at the time it is scaled is the timber harvester and the one who must pay the tax.

When is the tax due?

The timber tax must be paid quarterly on all timber harvested during a calendar quarter. The actual reporting deadlines are as follows:

<u>Quarter of Harvest</u>	<u>Tax Due</u>
1st Qtr. Harvest (Jan., Feb., March)	April 30
2nd Qtr. Harvest (April, May, June)	July 31
3rd Qtr. Harvest (July, Aug., Sept.)	October 31
4th Qtr. Harvest (Oct., Nov., Dec.)	January 31

How do you report the tax? State law requires anyone who intends to harvest timber on private land to obtain a Forest Practice Application (cutting permit) from the state **Department of Natural Resources**. This permit serves as the registration document for the timber excise tax. A copy of the cutting permit is forwarded to the Department of Revenue which then mails the tax reporting forms and instructions to the person who is planning to harvest the timber. The reporting system is similar for timber cut on state and federal land except that the timber sale contract is used instead of a cutting permit to alert the Department that timber has been sold.

How is taxable stumpage value determined? The taxable value of stumpage is determined differently for large harvesters than for small harvesters. In addition, public timber is valued by a different method than private timber.

Small harvester option: Anyone who cuts less than two (2) million board feet in a calendar year is considered a small harvester. Small harvesters may pay tax on the actual amount paid for stumpage or the actual amount received from the sale of logs minus the costs of felling the timber and delivering the logs to the buyer (law changed effective July 1, 1995).

Large harvesters: Large timber harvesters must calculate taxable stumpage value by using stumpage price tables published twice a year by the Department of Revenue. These tables are mailed to the taxpayer along with the reporting forms. They list stumpage values by species and quality for different market areas (Stumpage Value Areas) across the state. Note: Small harvesters may also choose to use the value schedules instead of actual stumpage price.

Public timber sales: For timber harvested on public land, the taxable stumpage value is the actual amount paid for the timber in cash or other consideration. Other consideration includes anything of a permanent nature given in lieu of cash such as permanent roads constructed as part of the timber sale contract.

Who gets the revenue? Tax revenues from timber harvested on private land go to both the state and local government. The tax rate is actually composed of two taxes—a county timber tax rate of four percent and a state tax of one percent. The county tax revenue is distributed among local taxing districts within the county including the county road fund, county current expense fund, local school districts, libraries, and fire districts. The state's share of the tax goes to the state General Fund and is used to help support various state programs including schools and social services. Tax revenue from public timber harvest also goes to the state General Fund—none to local government.

In calendar year 1994, the counties received about \$67 million from taxes on private timber while the state received a combined total of \$23.4 million from private and public timber.

OTHER TAX OPTIONS FOR WOODLAND OWNERS

There is one other tax option available to people who own less than the 20 acres required for classification or designation under the forest tax law. Parcels as small as five acres may qualify for classification under the open space tax law as "timberlands". Once the land is classified under this law it is assessed for tax purposes in exactly the same way as forest land classified or

designated under the forest tax law. However, there are some differences in eligibility requirements, application procedures and penalties for removal if the land use changes. For more information about the open space tax law, contact your county assessor.

CHRISTMAS TREE TAXES

There are basically two classes of Christmas tree growers and each class has a different tax system. If Christmas trees are grown by intensive cultivation (i.e., tilling of the soil and control of brush and weeds), they may qualify for classification as agricultural land under the open space tax law. If Christmas trees are grown under "wild" conditions, the land may be classified or designated as forest land and taxed in the same manner as other forest lands. Christmas trees cut from lands classified under the open space agriculture classification are not subject to the timber excise tax, but wild grown trees must pay the excise tax on stumpage value at the time they are harvested.

OTHER TAXES ON TIMBER

Personal Property Tax

State and other public timber sales are subject to the personal property tax on the value of the uncut timber as of January 1. However, any personal property taxes paid on state timber sales can be claimed as a credit against timber excise taxes owed on the same public harvest. Property tax credit applications are available from the county assessor's office.

Business and Occupation Taxes

Persons who harvest timber for sale or for commercial or industrial use are considered "extractors" under Washington's business and occupation tax laws. This tax is in addition to the timber excise tax described

above. However, persons who meet the definition of a small harvester, and whose gross receipts from sale of the logs is less than \$100,000 in a calendar year are exempt from paying the business and occupation tax on their timber income. A small harvester is anyone who cuts less than two (2) million board feet in a calendar year.

Persons who do not qualify for the small harvester exemption are required to register with the Department of Revenue by completing a Master Business Application obtainable at any field office of the departments of Revenue, Licensing, Labor and Industries or Employment Security. The tax is based upon the gross receipts from sale of the timber. More information on registration and reporting requirements can be obtained by calling the Department of Revenue's toll free information line: 1-800-647-7707.

Department of Licensing: 1-800-562-8203

Real Estate Excise Taxes

Landowners who sell standing timber are liable for state and local (if any) real estate excise taxes. A timber sale is considered a sale of standing timber if title/ownership to the timber passes to the buyer before harvesting takes place. The tax is due under this circumstance even if the land is not sold with the timber. The state tax is 1.28 percent of the sale price, and in some areas local tax rates may apply. Note that if the timber sale contract specifies that the title/ownership to the timber passes to the purchaser after the timber is cut, it is not considered a sale of standing timber, and the real estate excise tax would not apply.

These locations have a professional forester available in the office on Mondays for harvester assistance.

District Office	Address	Phone
Aberdeen	110 West Market P. O. Box 1018 Aberdeen, WA 98520-0209	(360) 533-9383 FAX (360) 533-9327
Everett	11627B Airport Rd. P.O. Box 6 Everett, WA 98206-0006	(425) 356-2768 FAX (425) 356-2945
Vancouver	8008 NE 4th Plain Blvd. Suite 320 P.O. Box 1641 Vancouver, WA 98668	(360) 260-6273 FAX (360) 260-6183
Olympia MAILING ADDRESS:	2735 Harrison Ave. NW Olympia, WA 98502 PO Box 47472 Olympia, WA 98504-7472	(360) 753-7086 1-800-548-8829 FAX (360) 664-8438
Port Angeles	1601 East Front Street Bldg. 2, Suite A, P. O. Box 400 Port Angeles, WA 98362-0064	(Forester available by appointment only) (253)593-5288
Spokane	N. 4407 Division, Suite 300 P.O. Box 7248 Spokane, WA 99207-0248	(509) 482-3811 FAX (509) 482-3803
Tacoma	3315 S. 23rd. St. Suite 300 Tacoma, WA 98405-1605	(253) 593-5288 (253) 593-5287 FAX (253) 593-2003
Wenatchee	630 N. Chelan, Suite B-3 P. O. Box 220 Wenatchee, WA 98807-0220	(Forester available by appointment only) (253)593-5288

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